THE EFFECT OF WORKING CAPITAL MANAGEMENT PRACTICES ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA

CASE STUDY: NAKAWA MARKET

BY

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DEDICATION

This work is dedicated to my lovely sons Siimamukama Ceaser and Ernest Muhairwe who missed motherly love and care for the period I have been at UMU.

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LIST OF ABBREVIATIONS

CBD	Central Business District
KCCA	Kampala Capital City Authority
MPT	Modern Portfolio Theory
MUBS	Makerere University Business School
ROT	Rate of Turnover
UMU	Uganda Martyrs University
SMEs	Small-scale and Medium Enterprises
UBOS	Uganda Bureau of Statistics
WCM	Working Capital Management

ABSTRACT

The study investigated the e effect of working capital management practices on the financial performance of SMEs in Uganda taking Nakawa Market. The study objectives were to establish the effect of cash management on financial performance of SMEs in Uganda, to evaluate the effect of receivables management on financial performance of SMEs in Uganda and assess effect of inventory management on financial performance of SMEs in Uganda.

The research was conducted by using quantitative approach and adopting a case study design. Data was collected using questionnaires, as well as review of day to day business records. A total of 130 respondents who included business owners and staff working in retail SMEs in Nakawa Market. Data was analysed using Statistical Package for social scientists to generate descriptive and inferential statistics. Analyzed data was presented in tables, graphs and charts.

The study found out that working capital management in SMEs was undertaken through cash, receivables and inventory management. It was established that number of SMEs had cash related problems; most of their cash was tied in debts, and had little or no savings in the cash and at the bank. A positive relationship was established between cash management and financial performance. It was further established that SMEs give credit to their customers, although a number of these clients did not pay back affecting the sales volumes. It was also found out that trade receivable management enhanced financial performance. More so, the firms held various inventories depending on their lie of business, although there were a few records related with inventory management. There was a strong positive relationship between inventory management and financial performance. The study concluded that there was a strong relationship between working capital management and financial performance of SMEs.

Recommendations included that SMEs proprietors and Owners need to employ skilled and well trained staff, regulate their cash needs, have a policy that guides them in granting of debts to customers, improve on their scope of savings and investments, and also have regular inventory management to regulate inventory flow and related costs. The effect of saving and investment culture on financial performance as well as effect of inventory flow record keeping on the financial performance of SMEs were recommended for further research.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

Working Capital Management are activities done in the organisation which involves planning, controlling, and regulating short term assets and liabilities of the business (Abor & Biekpe, 2009). It is a routine activity that gives a true picture of what the firm holds during its day to day operations, and sources of operations that require be funding or settling. In this study, focused on cash management, receivables and inventory management aspects of working management and how they affect financial performance.

On the other hand, financial performance is measure of an organisation's performance basing on its financial position, cash, assets, liabilities expressed in financial terms (Falope & Ajilore, 2009). Financial performance is a key indicator of general operations of the firm. Failure to attain a good financial position can affect the ability of SMEs to expand and grow. This study focused on Profitability, Liquidity and RoI aspects of financial performance in SMEs.

This chapter presents background to this study, statement of the problem, research objectives, questions, scope, significance of the study, conceptual framework and definitions of key terms.

1.1 Background to the Study

Linda (2010) described Small and Medium Enterprises as cluster of business in any Economy which are easy to start on a small capital but constitute the largest form of business in most economies. These enterprises (SMEs) are the most widespread forms of businesses globally. Over the years, SMEs have been fast spreading and Jones & Greene (2015) remarked that 78% of the businesses in the world are SME. However, only 12.9% keep these firms (SMEs) survive to celebrate their fourth anniversary. This closely linked with how they manage their working capital and financial performance levels.

Working capital is net operational position of the firm that provides for liquidity, profitability and general record of its cash and cash equivalent status (Külter & Demirgüneş, 2007). Working capital management is essential for every business and contributes towards increasing profitability, future planning and sustainability (Patel, 2010). Working capital management is an important financial tool which directly contributes to a business's total performance (Abor & Biekpe, 2009). Most successful firms in many countries have working capital management as a priority in financial management of their operations. Laziridis & Tryfonidis (2016) in their study about working capital management noted that firm whose focus has been on ensuring better working capital management usually report better financial position in many countries than those whose working capital is less a priority. Laziridis & Tryfonidis highlight a number of benefits of having a good working capital management, though their study did not exhaust the ways working capital management (WCM) is strong foundation for financial performance.

Over 67% SMEs undertaken cash management in its working capital management although they do this in a less comprehensive manner, which at times affects their financial performance (Sharma & Kumar, 2011). Singh & Pandey (2008) in their attempt to study the working capital components and its impact on profitability of industries also showed that progress in attaining better WCM among SMEs remain a challenge in Sub-Saharan African countries.

A few firms in Africa have a sound working capital management, and this is evident mainly among SMEs as they manage their cash, inventory and trade receivables (Linda, 2010). With business growing at a pace of 7.9% per year in Sub-Saharan Africa, working capital management is vital if these businesses are to perform well. Akipomi (2010) also maintained that ensuring high financial performance levels in SMEs is key if they are to survive and grow. Thus there is need to have a good working capital management to help proprietors understand how to use cash, non-cash assets, and liabilities for better financial outcomes. Unfortunately, a few studies have focused on exploring in detail the effect of working capital management on financial performance of SMEs in East Africa and Uganda in particular.

Proper business management especially in SMEs is gaining prominence in East Africa, and according to Mwamby & Wangare (2014) a large number of SMEs are coming on board. A number of business owners have a positive attitude towards working capital management and made it priority (Turyahebwa, 2015). Nevertheless, not all firms are doing well in their working capital and financial performance and this study focused attention on SMEs doing business in Nakawa Market, Kampala Capital city.

Nakawa market is one of the oldest markets in Kampala City. It was established in 1929 in Kampala, and it serves over 2,420,200 people living in Nakawa and surrounding areas. It is enroute to Naguru, Bugolobi, Banda, Ntinda, Kinawataka and Mbuya (Nakawa Market Traders Association report, 2016). This study focused on retail businesses categories of SMEs in this market. Despite their large composition in the economy, most of the SMEs complain of shortage of working capital, and a large number of them do not do well financially (Kagogwe, 2012). The financial performance of SMEs has remained low, traders' earnings in terms of profits and return on capital as not improved over the last two to three years, a number of SMEs complain of high indebtedness in loans and low cash liquidity levels (Nakawa Traders Association Report, 2016). This poses need to examine how they (SMEs) handle their working capital and the extent to which their working capital management yields to their financial performance levels. Thus, focus of this study was on the effect of working capital management practices on the financial performance of SMEs that operate in Nakawa market, Kampala city.

1.2 Statement of the Problem

Good financial performance is a core target for all firms whether small-scale or big. Financial performance is when a firm is able to meet its current and future cash and non-cash financial needs without hardships. However, SMEs still struggle both in terms of working capital management, financial performance and growth (Coad, 2007). Instead of expanding to large ventures, SMEs in Uganda have kept struggling in their finances, performance and majority have subsequently closed business (Bugaari, 2008). Working capital management techniques are adopted by organizations to ensure effective investment of cash, achieve profitability be successful in financial performance (Dodds, 2015). Efficient Working Capital management does not only prevent bankruptcy but also improves profitability, cash flow and returns per capital invested (Wanyungu, 2014).

Despite a number of efforts to uplift their working capital management, 80% to 90% of SMEs still perform fail within 5-10 years due to financial challenges (Ahmad et al., 2011), and Uganda is not exceptional (Tushabomwe et al., 2008). SMEs continue to perform properly including those operating in Nakawa Market. Nakawa Market Traders Association (2016) report states that since 2010 to 2015, 298 SMEs have closed up business and others are still struggling to maintain their financial stability. This leaves an information gap regarding the effect of proper working capital management on the financial position of SMEs in Nakawa Market that has not been addressed by recent research. Owing to this gap, this study focused on examining the effect of working capital management practices on the financial performance of small and medium enterprises in Uganda.

1.3 Objectives of the Study

1.3.1 Major Objective

The study aimed at examining the effect of working capital management practices on the financial performance of SMEs in Uganda taking Nakawa Market as a case.

1.3.2 Specific Objectives

(i) To establish the effect of cash management on financial performance of SMEs in Uganda.

(ii) To evaluate the effect of receivables management on financial performance of SMEs in Uganda.

(iii) To assess the effect of inventory management on financial performance of SMEs in Uganda.

1.4 Research Questions

The study sought to address the following research questions

(i) What is the effect of cash management on financial performance of SMEs in Uganda?

(ii) What is the effect of receivables management on financial performance of SMEs in Uganda?

(iii) What is the effect of inventory management on financial performance of SMEs in Uganda?

1.5 Scope of the Study

1.5.1 Geographical Scope

The study was carried out in Nakawa Market in Nakawa division, Kampala District. Nakawa market is located along the Kampala- Jinja road stretch covering ½ km in length. It is enroute to Naguru, Bugolobi, Banda, Ntinda, Kinawataka and Makerere University Business School (MUBS). This area was selected because it has a large number of retail SMEs constituting a leading source of information about working capital management and financial performance.

1.5.2 Content scope

The focus of the study was working capital management practices and financial performance of SMEs in Uganda. It particularly examined working capital management practices (cash, receivables and inventory management) and financial performance (profitability, liquidity and return on investment). The study concentrated on the effect of cash management on financial performance, effect of receivables management on financial performance and effect of inventory management on financial performance of SMEs in Uganda.

1.5.3 Time scope

The study concentrated on information about working capital management and financial performance for SMEs that have operated in the market from 2014– 2017. This duration was considered relevant and applicable for the study's purpose and objectives basing on available time and finance resources.

1.6 Significance of the Study

The study was useful in a number of ways as explained below.

The study contributes information to the management of SMEs in Nakawa Market regarding cash and cash management, inventory management and receivables management, and how they are related with financial performance. This can help management to improve their operations in these areas for better operations of their businesses.

The findings add to the available literature on the concepts of SMEs and how they can handle their working capital management. This is useful to future scholars and researchers in the field of financial management for SMEs.

To policy makers such as Uganda Bureau of Statistics (UBOS), KCCA officials and Uganda Investment Authority, the study provides a baseline upon which they can formulate policies, to guide SMEs and their activities in Nakawa and Uganda in general.

The study is useful for cashiers, accountants, and professionals in financial management, by providing to them real business experience about proper working capital management that can yield better financial performance levels.

To business owners, the study findings act as a tool of business evaluation regarding their financial undertakings and working capital management related activities. The study provides an in-depth data on how SMEs can base on WCM and financial performance to evaluate the performance of their business.

1.7 Justification of the study

The increasing numbers of SMEs without synonymous growth and performance levels has remained one of the challenges in SMEs in Uganda. Over 80% of new business start-ups in Uganda are SMEs, but a large number of SMEs fail financially and do not celebrate their fourth anniversaries (Tushabomwe et al., 2008). They cannot stand financial challenges of cash shortage, operate on debts (loans), and complain of persistent working capital shortage.

Poor business financial performance in the SMEs sector has for long remained unexplained in regard to businesses in Nakawa Market. A number of SMEs have closed up business in the area due working capital challenges (Nakawa Traders Association Report, 2016). If this poor financial performance persists, the SME sector is a likely to decline, yet it employs a lot of people in Nakawa Division. The challenge of poor financial performance and how it is related with working capital management has remained not well documented and its information lacking regarding SMEs in Nakawa Market. This justified the need for conducting a study to examine the effect the internal control system on financial performance.

1.8 Definition of key terms

The following terms were used as defined for this study:

Cash, refers to a total sum of money notes and coins used to settle firms' operations, claims and effect different transactions of the business.

Receivables refer to all those claims the firm has from its customers. It is an accumulation of the value attached to money in debts.

Inventory refers to all those items that the firm or business purchases for re-use or sale. It is a total of consumables, items used in production, operations and stocks items held for sale.

Working capital refers to the value of the business in excess of list short term claims. It is an investment of owner expressed as difference between current assets and its current liabilities.

Profitability: is the extent to which the firm is able to attain its profits. A profit is the excess of firm revenues over its costs and expenses. It is the networth of business owner or capital returns.

Liquidity refers to the potential of the business to have a net balance of cash after it has paid off its short term obligations after the firm has settled its short term obligations.

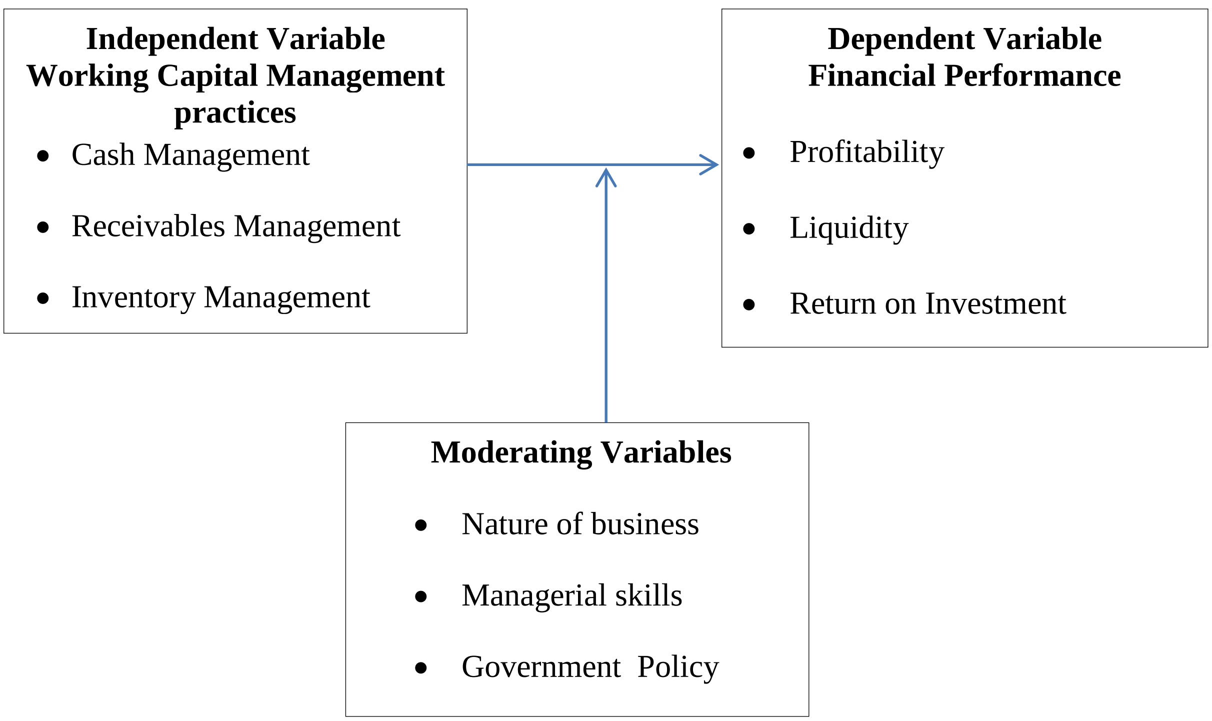
Return on Investment will refers to owners' earnings generated from investments made over a given period of time. It is the ratio of earnings firm makes in relation to capital invested.

Financial performance, this refers to the level of performance of a business over a specified period of time expressed in terms of overall profits and losses during that time.

1.9 Conceptual framework

The conceptual framework give due attention to the variables of Working Capital Management practices and Financial Performance. According to Nazir & Afza (2009) the optimal level of working capital is one that ensures a balance between risk and efficiency focusing on cash, receivables and inventory management. Financial performance is the general outcomes of the firm expressed in monetary and other financial terms (Thomas & Evanson, 2014). This study focused on working capital management practices and financial performance of SMEs.

Figure 1.1: Conceptual framework for the relationship between working capital management practices and financial performance of SMEs



Source: Developed by Researcher basing on Nazir & Afza (2009)

Figure 1 above, shows relationship between Working Capital Management (as the independent variable) and Financial Performance (as dependent variable). It means Working Capital Management (WCM) practices (cash management, receivables management and Inventory) were examined to establish whether they have an effect on the financial performance of SMEs. Working capital management being measured on cash management, receivables management and inventory management while financial performance measured basing on financial liquidity, profitability and return on investment. However, financial performance in SMEs can be influenced by other factors including nature of business, managerial skills and Government Policy. These existed as moderating variables in this study. The study examined the relationship between WCM and financial performance of SMEs in Nakawa market and moderating factors were not addressed.

1.10. Conclusion

In conclusion, this chapter provided a background to this study in regard to the effect of working capital management practices and financial performance of SMEs in Uganda. It paved way for continued inquiry about working capital management and financial performance of Small-scale and Medium Enterprises.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents views, ideas, and literature of different scholars in regard to the working capital management and financial performance of SMEs. The literature was presented and organised according to study objectives.

2.1 Theoretical review

This study was conducted in line with the modern portfolio theory (MPT) as first developed by Harry Markowitz. The theory assumes that investors are rational and markets are efficient. MPT was developed in the 1950s through the early 1970s and was considered an important advance in the mathematical modelling of finance.

The theory postulates that a firm should pay attention to key areas in which it invests in order to maximize portfolio and return its risk through properly allocating amounts to various assets and performance units. The theory bases on the fact that firm should allow for proper collection of both types of assets so as to lower different financial risks and enhance financial performance. This can include cash, inventories and other non-cash assets in the organisation. By combining different assets whose returns are not perfectly positively correlated, MPT seeks to reduce the total variance of the portfolio return and boost financial performance of the organisation in the short and long run. The theory directly relates with how firms ought to handle their working capital and financial performance.

This study based on this theory to expound and examine working capital management (WCM) practices and its effect on financial performance of an organisation with reference to SMEs in Uganda.

2.2 Conceptual review of Working Capital Management

Walker & Munderson (2008) viewed working capital management as a very important component of corporate finance. It directly affects liquidity, profitability and growth of a business and is important that the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed. Lamberson (2015) also added that working capital management involves planning and controlling of current assets and liabilities in a manner that eliminates the risk of inability to meet short-term obligations and avoid excessive investments in these assets. All this gives an idea of what working capital management is and how relevant it is in day-to-day business operations.

Abor & Biekpe (2009) also pointed out that working capital management is as important as the management of long-term financial assets in SMEs, since it directly contributes to the maximization of a business's profitability, liquidity and total performance. Working capital is a managerial and financial practice which in most cases is rudimentary practiced especially in the informal sector and small scale holdings. The firms, whose working capital management is not well instituted and practiced, fall to prey to different challenges including financial insolvency, bankruptcy and indebtedness (Thomas & Evanson, 2014). This study adopted Abor & Biekpe (2009)'s views to examine the concept of working capital management in SMEs.

2.2.1 Cash Management

According to Reuer *et al.,* (2012) Cash management is vital tool of management, if the firm is to have a positive working capital position. Therefore, cash management provides a highlight of cash flow of the firm. Cash is used to pay suppliers when raw materials are obtained on credit or raw materials are bought with cash, the raw materials are turned into finished goods which are either sold for cash or credit. Kwame (2007) also assert that cash management practices focused on cash budgeting and target cash balance determination, occurrence of cash surplus or shortage and investment of cash surpluses. Working capital is very important for financial efficiency and growth in the small business sector.

Aryeetey (2014) reveals that cash management practices are still low amongst SSEs and majority have not adopted records of cash in terms of only how much is spent, received and/or claimed by the firm. Despite this, a few firms base and use the efficiency of cash management practice as their key financial management practice (Lindsay & Keitherson, 2013). In this case, keen interest is on how much cash is readily available as liquid. Liquidity of cash is based on the extent to which the firm requires having cash at hand and whether cash is needed for future transactional motives (Sowa, 2010). This study based on the views of Kwame (2007) as they give an elaborate view of cash management, but in this context the study focused on SMEs in Nakawa Market.

2.2.2. Receivables Management

In business, the firm can hardly deal on cash alone, and this gives rise for receivables and payables (Shahwan & Al-Ain, 2008). In the view of Shahwan & Al-Ain (2008) receivables are all values that the firm anticipates to receive from its potential clients arising from the credit sales made. Atrill (2006) added that there is evidence that many small scale enterprises are not very good at managing their working capital in their receivables and this is a challenge in their working capital environment. Despite their high investments in current assets, some SMEs keep increasing sale by credit, elevating the level of receivables which can cause the firm to stagnant at times yielding to business failure (Thomas & Evanson, 2014).

Majority of the small scale enterprises operate without credit control department implying that both the expertise and the information required to make sound judgments concerning terms of sales may not be available (Lamberson, 2015). This makes it hard for these firms (SMEs) to work without Credit Sales. Efficient receivables management augmented by a shortened creditor's collection period, low levels of bad debts and a sound credit policy often improves the businesses' ability to attract new customers and increase financial performance (Ross et al., 2008). Firms that are efficient in receivables management should determine their optimal credit which minimizes the total costs of granting credit (Ross et al., 2008). This study adopted and based its inquiry on the premise of Ross et al., (2008) since they stressed clearly what brings about trade receivables and how they can be influential in determining the performance of the organisation, but with particular emphasis to SMEs Uganda.

2.2.3 Inventory Management

According to Steel & Webster (2012), inventory also remains one of the key areas that determine the working capital of the organisation. Walker & Munderson (2008) further show that it is very critical that in each day, the firm should ascertain the flow of its inventory for purposes of proper control and management of its activities. In addition, Lazaridis & Dimitrios (2005) found out that firms that pursue a planned inventory management is able to fast moving products, keep in business, increase their profitability, sales and market share. Deloof (2013) also asserted that inventory management is key and the type of inventory held and how it is managed, is key in determining the production scope, output levels and general earnings of the firm. All these are key in influencing ho the firm operates and the position it takes in the market and financial progress. Reflecting on the views of the above authors, attention was put on how relevant then is inventory in performance of the firm.

Shahwan & Al-Ain (2008) reveals that large number or volume of inventory in the business means high level of cash tied in inventory and may be significant on profitability of the firm. Several times a firm should experience high rate of turnover (ROT) if its operations are so successful. The essence of focusing on working capital management in form of giving attention to the efficiency of inventory control is very important (Atrill, 2006). Each and every business whether SMEs or not, should pay strong attention to its inventory. This study wile referring to the views of Shahwan & Al-Ain (2008) focused on the ways in which inventory control management is one of the widely used approaches in undertaking working capital management techniques in small scale and medium businesses, giving particular attention to those operating in Nakawa market.

2.3 Conceptual review of financial Performance

Performance is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth (McMahon, 2005). Performance is very important in determining the success or failure of a business. Due to the importance of performance, Edmister (2007) suggested that small firms need to concentrate on performance.

Kotut (2013) in his view states that financial performance is a lubricant of any businesses success and efforts should be directed towards having a good financial performance report at all times. Financial performance is very critical evaluating the general performance of the firm, though a few businesses have been able to provide a stable financial management basing on financial performance. The challenge is that some SMEs do not know when, how, and which aspects to focus on when evaluating their financial performance. This study gave attention to some of the indicators/ key areas that are based on to evaluate financial performance especially in small scale and medium businesses.

Appropriate financial performance focuses on all those activities that work to enhance efficiency, profitability and survival in highly competitive terms of the business (Mutatiina & Sheria, 2011). Each firm looks forward to having better financial performance since it reflects a lot on its liquidity, investment, assets valuation and promptness of cash payments and receipts. However, a few firms attain this objective. This study while reflecting on the views of Mutatiina & Sheria (2011) examined the concept of financial performance in terms of profitability, liquidity and return on investment in SMEs. Attention was put on the financial performance measures of profitability, liquidity and return on investment in SMEs.

2.3.1 Profitability

Profitability is the core aim of each and every business (Ishungisa, 2013). According to Lazaridis & Dimitrios (2005), a profit is a return to the business arising from the sales made by the firm. It is the excess of the costs that has been generated as sales proceeds. These scholarly reflections on profits make profits and profitability a key score measure for businesses whether small or big as it undertakes its different transactions and activities.

When the profits are growing, it is synonymous to saying the financial performance of the organisation is good (Kotut, 2013). Profitability of organisation determines attainment of effective financial performance. It is a primary goal of all business ventures (Glendinning, 2013). Without profitability the business will not survive in the long run. So measuring current and past financial performance of the organisation is a basis of firms' profitability. Profitability is one of widely used measures of success in an enterprise (Kotut, 2013), though this may not necessarily apply to and for all business categories. This study examined scope of financial performance in relation to profitability of different SMEs as they operate in Nakawa Market.

2.3.2 Liquidity

Walker & Munderson (2008) defines liquidity as cash or cash equivalents in the organization. Most firms especially small scale firms to date still cherish their cash position to evaluate their financial performance measures. In the study by Fu (2009), financial performance is evaluated basing on liquidity state of its operations. In the view of Bobinski (2016), liquidity in financial terms is the firm's ability to meet its short-term obligations–to pay its bills. The firm's cash position can offset prevailing financial claims onto the business, and remain with cash/bank balance, when in such a scenario then it is considered as a business with a good liquidity position.

According to Kenyon &Tilton (2006) liquidity in many firms is considered by examining the cash current ratio and working capital turnover levels. The financial position of the firm is in most firms exhibited in liquidity indicators. The firm whose efforts are directed at their cash positions and liquidity levels, is able to provide a financial position of business in terms of adequacy, availability and their current assets and current liabilities. The firm's liquidity levels are examined in relation with the current ratio and solvency. Financial performance in terms of liquidity levels can be examined in relation with the fairly liquid asset, market liquidity as potential of an enterprise to keep transacting in cash as on-going market prices. This varies and may not be easily considered uniform giving that different businesses have varying opportunities and challenges in cash and cash equivalents.

2.3.3 Return on Investment

Sushma & Bhupesh (2007) revealed that return on Investment is a financial performance measure that is based on to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. According to Lindsay & Keitherson (2013) financial investments is the accumulation of an owners' pool of funds put to the business to meet future returns and activities. For many firms especially SMEs, financial performance is based on how much capital has been invested in assets acquisition (Sushma & Bhupesh, 2007). The level of investment can also be considered when establishing the level of financial performance of an organization.

Return on Investment (ROI) is the benefit to an investor resulting from an investment of some resource as noted by Arbough & Camp (2010). It is the ratio of the capital invested in relation to the earnings made on the investment for which the given capital was allocated. It is one way of considering of profits in relation to capital invested (Kotey *et al.*, 2012). A high return on Investment (ROI) means the investment gains compare favorably to investment cost. As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments (Nwehu, 2009).

Computations of financial ratios and especially Return on Investment are critically important in ascertaining the firm's performance, level and growth especially in SMEs. It is thus vital to evaluate the firm's total amount of their investments in line with their total income, consumption, savings and daily operations. During this study findings based on the view of Sushma & Bhupesh (2007) to examine the return on investment as carried out in SMEs in Uganda.

2.4 Cash Management and Financial Performance of SMEs

Cash management is an essential tool which aims at establishing the financial position of the organization. Cash management is a set of guidelines established by management to ensure that the organization has cash balance always to meet the organization goals; cash recovered should be matched with cash spent on services so that there is no unused cash balances. Lamberson

(2015) remarked that cash management had a growing importance in the past years and number of factors has brought serious attention to the importance of cash management. Cash management is essential for every business as it would contribute towards increasing profitability, future planning and sustainability.

Puxty & Dodds (2013) added that Cash Management help you gain better control over your daily financial activities. It is concerned with the management of cash flow that is to say inflow and outflow of cash, this sought to archive control of cash by paying obligations like meeting organizational needs. Cash management is the practice of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time. In the study by Abor & Biekpe (2009), cash management is considered as a way of cash planning, cash flows and budgets, cash collection and control are fundamental in ensuring a high potential of the firm to attain high level of financial performance. Cash management help the firm maximise its shareholder wealth and improve the firms' return on capital employed.

Abor & Biekpe (2009) further cited that progress and attaining of most of the basic benefits of financial reporting, cash stability and business expansion and growth emerge when the firm is able to properly handle its operations right from capital, investment, to sales and profit accumulation. Shahwan & Al-Ain (2008) also revealed that the basis of organisation to attain a credible and outstanding financial performance can be linked with it cash and cash management operations. Cash management plays an indispensable role in having a better working capital practices for firms to attain success in financial management and performance in both short and long term operations. In such a case, effectiveness and better achievement of financial performance is strongly supported by cash management in short and long run periods.

According to Padachi (2011), efficient cash management under working capital is vital for the success and survival of the SMEs which needs to be embraced to enhance performance and contribution to economic growth. However, Atrill (2006) showed that there is evidence that many small scale enterprises are not very good at managing their working capital despite their high investments, if they cannot address cash management. Cash performance is very important in determining the success or failure of a business and is not only the generation of sales, but also generation of profits arising from use of cash in the organisation.

Cash management is fundamental in ensuring the capitalization level of the firm (Bowen et al., 2009). When the firm fails to have its cash obligations, its capitalization opportunities are small and subsequently its performance is constrained. In the view of Steel & Webster (2012), financial performance in many SMEs shows that cash management is useful in retaining earnings and also good in ensuring high level of survival of business. In the related study of Uyar (2009), cash management in a business is not only the generation of sales, but also generation of profits and as such the proportion of cash invested and used as working capital plays a fundamental role. Bowen et al. (2009) also cited that it is hard to ascertain the financial position of many SMEs when you do not have cash flow management since cash flow management is key in ensuring effectiveness in cash in and cash outflow management. Working capital management practices can make a substantial difference between the success and failure of an enterprise and it is of particular importance to the managers of small scale enterprises, because it is they who strive for finances and the opportunity cost of finances, for them is usually on the higher side (Kwame, 2007).

Dong & Tay Su (2010) in another study revealed that cash management is key in establishing profitability levels and also can be useful in ensuring cash conversion cycle. Through operating on cash approaches, cash financial management is critical in providing a financial indicator measure, through gross operating profit, and the cash conversion cycle and all of its components. This shows that firms depend on their cash operations for company's performance and cash flow have as earning based measures are more related to stock returns and depict the company performance better than cash flow measures in some companies with higher accruals. This study focused on the effect of cash management as part of Working Capital Management practices in SMEs, and how effective cash management levels is influential in financial performance of SMEs operating in Uganda.

2.5 Receivables management and financial performance of SMEs

According to Foulks (2015), receivables are a total accumulation of what the business anticipates to receive from its clients as outstanding claims. In any case the business will never operate only on cash basis and as such, clients especially regular customers, credit facilities are provided. Credit sales are several times attracts a percentage of that is higher than cash sales (Bowen et al., 2009). In the study of Emery (2014), effective accounts receivable management is not only viewed as important but a strategic tool for ensuring credible financial performance of a firm. A firm's competency to synchronize cash inflows with cash outflows in formulating a cash flow management strategy is important to a firm's financial performance. The goal of accounts receivable management is to maximize shareholder wealth.

Kwame (2007) also revealed that receivables are large investments in firm assets which are like capital budgeting projects measured in terms of their net present value. Receivables stimulate sales because it allows customers to assess product quality before paying but on the other hand, debtors involve funds which an opportunity costs (Weston & Copeland, 2009). In addition, Juan & Martinez (2012) noted that successfulness of any business venture is a result of many factors at hand, one of which is how it handles the key factors of production- capital and human resources.

According to Sushma & Bhupesh (2007), receivables as part of the working capital play a key role in operation and management of the business. It keeps the business as a going concern and close to 78.9 percent of global firms focus much on having health working capital management technique. In addition Steel & Webster (2012), the rationale for better receivables in working capital management is an ingredient for better financial performance of the firm. It can be used to improve the firms' working capital as well as influencing the progress of the firm. These benefits are widely experienced and fundamental for all businesses, although SMEs have not yet reaped a lot from their receivables management (Juan & Martinez, 2012). The extent and manner in which receivables as a factor influences financial performance of the organisation can be observed in the different capitals structures held by the firm.

In a related perspective, Ross et al., (2008) revealed that just like financial performance is a decision making point in management, so is a working capital management practice. Efficient receivable management practices should answer the questions: how long have the debts been granted, and to what extent has the business granted the debt recovery days. A better and well managed receivable handling practice helps to keep the business with liquid cash, and running cash (Steel & Webster, 2012).

In other studies (Kwame, 2007; Atrill, 2006 and Shahwan & Al-Ain, 2008), receivables play a strong effect on the stock levels of items available for sale and also the cash flow in the trading period. The higher the receivables the lower the financial performance level as this can increase bad debts and losses (Weston & Copeland, 2009). The financial controller in collaboration with the marketing manager needs to regulate the level of trade receivables as they keep the business funds in hands of clients. Proper recovery and management practices can be influential in determining the financial performance of the organisation as well as its effectiveness in the short and long run (Abor & Biekpe, 2009). This however may vary from one firm to another, and this study focus on examining how cash receivables and their state in the working capital management influences financial performance of the organisation.

Dunn (2009) also stated that a firm seeking to pursue overdue accounts may remind the debtor through a politely worded letter, a strongly worded letter, send a representative and eventually contemplate a legal action or writing off the debt altogether, but what is vital is that these receivables are recovered before they affect the financial position of the firm. Trade and cash receivables are a reduction to the daily profits and working capital, and in SMEs they account for 67.1% of business failure (Gitau et al., 2014). The views of Dunn (2009) and also Gitau et al (2014) point out clearly that high level of trade receivables is a good cash flow (in-flow) item which should be clearly handled, and in any case should be given to customers with a lot of reservations. This shows a strong negative effect of tying up the firms cash into trade receivables as this lowers current cash positions that are vital for day-to-day financial operations.

2.6 Inventory Management and financial performance of SMEs.

When considered on the aspect of inventory control, working capital management practices ensures and sets pace of regulating costs of the firm especially in inventory (Atrill, 2006). As Ross et al. (2008) observed inventory management account for the inventory carrying costs, of the firm and also help in determination of inventory level of the firm. Maintaining optimal inventory levels reduces the cost of possible interruptions or of loss of business due to the scarcity of products, reduces supply costs and protects against price fluctuations (Deloof, 2013). Managers of firms should therefore keep their inventory to an optimum level since mismanagement of inventory lead to tying up excess capital at the expense of profitable operations (Lazaridis & Dimitrios, 2005).

According to Lamberson (2015), efforts and concern for each organization is to ensure a better financial performance should be set on having its priorities on having a functional inventory management practice in the first case. Atrill (2006) also affirmed to fact that inventory provides a stronghold upon which the firm is able to re-engineer its production activities, ensure accountability, and transparency level regarding use of financial resources and provide a stable working capital structure. The views of the above authors show that a well implemented inventory management practice with in a fully established business organisation is a core aspect for enhancing financial performance of the organisation.

Inventory ties up resources of the organisation in everyday activities of production, through proper ascertainment of inputs, work –in-progress and output levels. The management of these three (3) key inventories can be a basis for decision making especially in finance, production and procurement (Lin, 2009). According to Ross et al. (2008), inventory management is critical in decision making and basing on its state, the firm can evaluate it financial performances and make relevant decisions. Marketing decisions, production out comes and general operations of the firm especially if the business is involved in handling inventory as part of its inputs and general business (Gitau et al., 2014).

Atrill (2006) revealed that inventory is an indispensable aspect that can hardly be ignored when assessing the performance of any business. In manufacturing firms, inventory is the blood life, like wise in commercial and other SMEs, inventory play a role of ensuring quality service delivery. Shahwan & Al-Ain (2008) added that proper inventory management keeps the business working and generating profits, and subsequently ensuring that the firm attains a high level of financial return from each and every financial resource allocated to departments. In addition, Sushma & Bhupesh (2007) inventory management practice give room for checking the professionalism of people involved in different sections, and as such can be a key indicator to account for financial performance variances. The extent to which inventory management is influential in financial operations, of the organisation can vary from firm to firm, and the scope of business done. This study focused on SMEs and entails to identify the extent to which inventory management as part of its working capital management practices, can influence the performance of SMEs. Specific attention was on SMEs operating in Uganda and particularly in Nakawa Market.

2.7 Conclusion

The chapter has provided a review of different authors work on working capital management practices, financial performance as well as the effect of cash management, receivables and inventory management with performance in SMEs. However information about inventory management and financial performance in SMEs in Nakawa market was further examined through conducting this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter presents the research design, area of study, study population, sampling procedures, data collection methods and instruments. The chapter consists of quality control methods, data management and processing, ethical considerations and limitations of the study.

3.1. Research Design

The researcher used a case study design. A case study is a study design which involves using a case area to examine an aspect or phenomenon in detail and holistic manner (Trochim, 2014). Case study was preferred because it was viewed as key in providing an in-depth investigation and analysis of the variables of the study in wider scope. To achieve this, the study used quantitative approach to collect that data.

Quantitative approaches involve use of statistical tools to establish the relationship between variables (Oso & Onen 2009). This approach assisted to generate numerical information about working capital management and financial performance. The approach facilitated the researcher to obtain information from busy respondents who cannot have time to provide descriptive information about the study.

3.2. Area of the Study

The study was carried out in Nakawa market. It specifically focused on SMEs that deal in retail business. According to Nakawa Market Traders Association, there are over 220 SMEs in the Nakawa Market dominant ones being retail and wholesale shops, welding and metal fabrications, beer and soda depots, restaurants and stalls. Nakawa Market is located in Nakawa division, east of the Central Business District (CBD) of Kampala city. The area was selected because of its accessibility and the high population it has operating in the area.

3.3 Study Population

Study population is a group of individuals, objects or items from which samples are taken for measurement or involvement in the study (Kombo & Tromp, 2009). The study population was drawn from Owners, Management and staff of retail SMEs owners in Nakawa Market. By March, 2017 registered retail businesses were 220 (Nakawa Market Traders Association, 2017) and all these constituted the study population. Retail SMEs were considered because they are the majority SMEs in Nakawa Market.

3.4 Sampling Procedures

3.4.1. Sample Size

A sample is a proportion of the population that has been selected for the study (Trochim, 2014). A sample of 140 respondents was selected for the study. Reference was made to Krejcie & Morgan (1970) to select a sample from a defined population.

Table 3.1: sample size

RESPONDENTS	Population	Frequency	Sampling technique
Business Owners	200	125	Purposive
Staff	20	15	Simple random sampling
Total	**220**	**140**	

Source: Records of registered SMEs with Nakawa Market Traders Association, January 2017

3.4.2 Sampling Techniques

Stratified, purposive and simple random sampling techniques were used to select the samples for the study.

Stratified random sampling; This involved dividing the population into homogeneous sub groups and taking a random sample in each sub group (Kombo & Tromp, 2009). In this study, the population was stratified into business owners and staff of SMEs. This help to have representative respondents depending on the positions they hold in the business.

Purposive sampling; This is where the researcher selected respondents whom he/she believed were key informants and have direct information about the topic of study. In this study, SMEs owner were purposively selected because they had key information about the working capital management and financial performance of their businesses.

Simple random sampling technique; This was used to select the staff of retail SMEs that are part of the study. Simple random sampling used provided a chance to employees to give their views about the working capital management and financial performance of the businesses they work in. Choice and use of these techniques provided the study with comprehensive and representative information.

3.5 Source of data

The researcher used both primary and secondary sources of data. Sekaran & Bougie (2013) defined primary sources as any source of first-hand information relating to the purpose of study. Primary sources of data were collected through use of questionnaires. Secondary data is any already existing information that can be accessed by the researcher in the field or other public libraries relating to the study. This was obtained from reading different documents related to working capital management and financial performance of SMEs.

3.6 Data Collection Methods and Instruments

3.6.1 Methods

The study used of a questionnaire survey and documentary review. Use of questioning was very vital for busy and high response rate (Mbabazi, 2011), and document review is the consistent and scientific inquiry that involves a review of different documents about the study variables (Trochim, 2014). The choice of these two (2) methods helped in obtaining a high response from both primary and secondary data sources.

3.6.2 Instruments

Questionnaires

Self-Administered questionnaires were prepared and used to collect information from the respondents. A questionnaire is a list of questions that have been prepared for respondents to answer (Oso & Onen, 2009). Questionnaires consisted of close ended questions providing alternative option for the respondent to select. Linkert order questions were also used to establish information about the study objectives. Questionnaires consisted of four sections, section A on the background information of the participants, section B included questions on the effect of cash management on financial performance of SMEs in Uganda, Section C focused on the effect of receivables management on financial performance of SMEs in Uganda and section D sought information on the effect of inventory management on financial performance of SMEs in Uganda.

Documentary Checklist

A documentary review checklist was prepared and used in the study to review of the respondents. Documentary review analysis was on key working capital and financial performance related documents. These include financial reports, statement of financial position, and statement of comprehensive income, cash flow statements and audit reports. This tool facilitated the researcher in reviewing secondary data about the study variables. .

3.7. Quality control Methods

3.7.1 Reliability

Reliability is the degree of consistency by the tool to give same data with minimal errors even when administered on different respondents (Sekaran & Bougie, 2013). Reliability was established through pre-testing them in the nearby Bugolobi market. Ten (10) Questionnaires were used for a pre–test. Pre-test questionnaires constructs when tested provided a value of 7.5 and hence considered reliable for the study.

3.7.2 Validity

According to Mugenda (2005), validity is the accuracy and meaningfulness of inferences, which are based on the research results. For validity, the researcher consulted the supervisor and other expert persons in the field related to the study who advised on the relevancy of the questions used. The researcher also carefully selected words, order of questions so that they were linked with the research questions and objectives of the study.

3.8 Measurement of variables

The researcher use frequencies, percentages, standard deviation, arithmetic mean, frequency and measure credit management and financial performance. Question were prepared basing on the 5point scale by Likert where the respondents were requested to respond according to their levels of agreement to the statements provided in the questionnaires ranging from strong disagreement to strong agreement.

3.9 Data Management and Processing

The study managed data through ensuring its subjected to proper editing, coding, summarizing and tabulation. Raw data obtained from the questionnaires was edited of grammatical, spelling, and other ambiguities. The edited data was summarized into the summary sheet. All the findings from questionnaires were assigned frequencies in accordance to how often they have been raised from respondents. Data entered was into SPSS for processing. The results were presented in graphs, figures, tables and descriptive statements to help generate conclusions and recommendations about the study.

3.10. Data Analysis

The researcher analyzed the data using descriptive and inferential statistics. Descriptive statistics involved the use of frequencies, percentages, standard deviation and mean while inferential statistics involved use of correlations. Quantitative data analysis was useful in measuring numerical findings and their impact on the study variables (Kombo & Trump 2009). Analyzed data was presented in tables, graphs and charts. It was further discussed, interpreted and explained to generate conclusions and recommendations about the study.

3.11 Ethical Considerations

The following ethical considerations were adhered to during data collection.

Formal introduction letter was obtained from Uganda Martyrs University and used to seek formal instruction to the office of Nakawa Market Traders Association and different owners of SMEs in Nakawa Market. This ensured that the study was formally authourized.

The participants were asked to give their formal consent to participate in the study. Obtaining formal consent helped to involve respondents who were freely interested in the study.

The personal details and identification records of respondents were not put down. Respondents were given study identification codes, which were used to identify them and not their personal names, residence address or telephone numbers. Where the respondents mistakenly put them on the tools, they were considered unanimous by the researcher.

The study also ensured that only selected respondents who were directly associated with the working capital management practices and financial performance of the organisation.

Only information was strictly restricted on study objectives. This helped to keep the researcher on track and obtain comprehensive information about the study.

3.12. Limitations of the Study

The researcher encountered the following obstacles in the course of the study.

Uncooperative respondents. Some respondents showed no interest in the research. However the researcher explained the reasons why the study was being carried out. She also guaranteed unto them confidentiality.

Financial constraints. The study was associated shortages in finances in preparation, data collection process and compilation of the report. The researcher however made a working budget to solve this challenge.

Bureaucratic Delays. There were delays in obtaining introduction and acceptance letters from the University and stakeholders at Nakawa Market respectively. To handle these challenges the researcher started the study early and followed her scheduled activities.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents the findings attained during the study on the effect of working capital management and financial performance of SMEs. Findings were obtained from Retail SMEs operating in Nakawa Market. Data on the effect of cash management on financial performance of SMEs in Uganda, effect of receivables management on financial performance of SMEs in Uganda and also on the effect of inventory management on financial performance of SMEs in Uganda was examined. The findings include descriptive and inferential statistics.

4.1 Background data of the respondents

A total of 140 respondents had been selected but not all of these participated. The study response rate was therefore established as in table 4.1 below.

Table 4.1: Response rate of the study

Response rate	**Frequency**	**Percentage**
Responded	130	93
Didn't respond	10	07
Total	**140**	**100**

Source: Primary data

Results in Table 4.1 show 130 respondents fully participated in the study and this contributed 93% of the same selected. Only (07%) did not respond. This indicates that the study response rate was 93% which is sufficient to provide reliable data was adopted for the entire findings of this study. The biodata of respondents was as described below.

4.1.1. Category of respondents

The study attracted participation from Business Owners and employee within Nakawa market and their distribution in the study was as shown in Table 4.2 below.

Table 4.2: Category of Respondents

Category	Frequency (f)	Percentage (%)
Business owners	120	92
Employees	10	8
Total	**130**	**100**

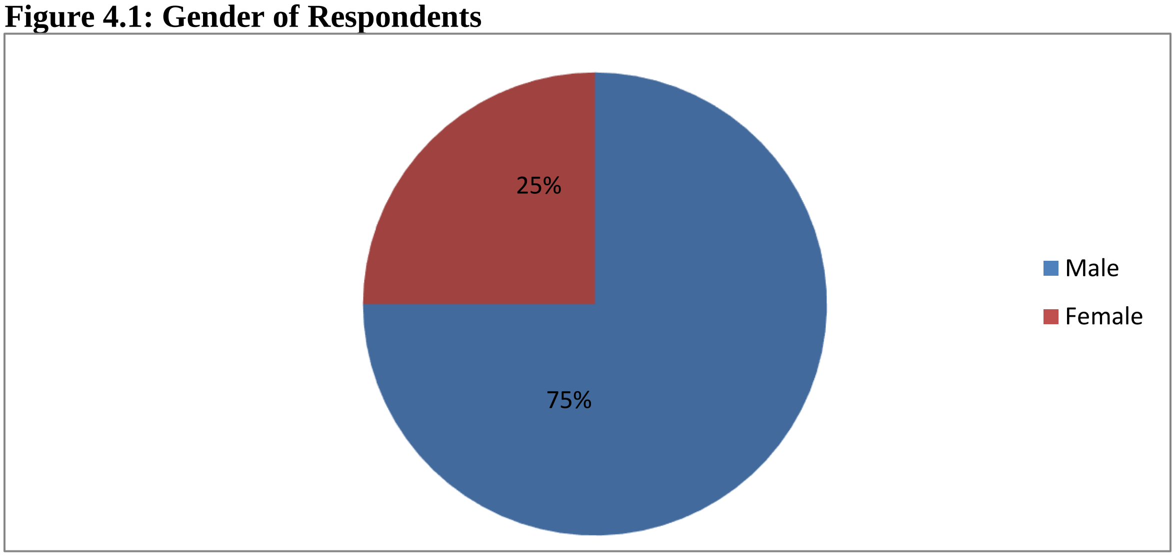
Source: Primary data, 2017

Table 4.2 reveals that 92% of the respondents were business owners and 08% were the employees in the various SMEs visited. This indicates that a few SMEs have employees and those owners/ proprietors work for themselves or delegate a member of the family who is not employee/paid for such service. This could affect the control of working capital management at the business.

4.1.2 Gender of the respondents

The distribution of respondents according to gender was as shown in Figure 4.1 below

Figure 4.1: Gender of Respondents



Source: Primary data, 2017

Figure 4.1 reveal that 75% of the respondents were male compared to 25% who were female. This implies that most business owners and employees in retail SMEs in Nakawa market were male although some females actively participated providing the researcher to get non gender-biased results.

4.1.3 Duration of service

Responses on the duration respondents had spent working/involved in retail business activities were established and presented as shown in Table 4.3 below.

Table 4.3: Duration of involvement in business activities of the respondents

Response	**Frequency (f)**	**Percentage (%)**
Less than 1-year	07	06
1-4	78	60
5-9	33	25
10 and above	12	09
Total	**130**	**100**

Source: Primary data, 2017

Findings in Table 4.3 show that 60% of the respondents had participated in retail business activities for 1-4, while 25% had operated for 5-9 years and about 9% had done retail business in Nakawa for 10 and above years. Least of the respondents (06%) had served for less than 1 year. This implies that most of the information generated in this study was based on experience of business operators and activities for the study area and this provided enriched, detailed and factual findings about how business operators and employees handled their working capital management and financial performance.

4.2. Cash management and financial practices

The first objective of the study was to establish the effect of cash management on financial performance of SMEs in Uganda. Questionnaires ranked according to the linkert scale order that is; strongly disagree, disagree, not sure, Agree and strongly disagree and the ranking interpreted by 1, 2, 3, 4 and 5 respectively. Details of descriptive analysis of the responses basing on the mean values and standard deviation are shown in Table 4.4 below.

Table 4.4: Descriptive statistics about cash management practices in SMEs

Statements	*N*	*Min*	*Max*	*Mean*	*Std. Deviation*
Your business has enough cash to meet its daily activities	130	1	5	1.26	0.374
Your SME base on its cash position to plan and control its activities	130	1	5	4.70	0.905
Cash at hand and bank is enough for future investment	130	1	5	1.09	1.964
The business still have uncleared debts for their businesses	130	1	5	4.81	0.190
There are cash surpluses at the business	130	1	5	2.16	1.937
The business experiences cash shortages	130	1	5	4.42	.155
The business does not have enough cash to pay for its stock	130	1	5	4.69	0.964
Valid N (listwise)	130				

Source: Primary data, 2017

In Table 4.4 are the descriptive analysis results about the aspects of cash management practices as undertaken in SMEs. These are further explained as follows.

4.2.1 SMEs' cash position

Analysis results show that a mean of 1.26 was obtained for the responses regarding the view that SMEs has cash to meet its daily activities. This implies that majority of the respondents disagreed with the statement. However a standard deviation of 0.374 was obtained an indication that there were few varying opinions in regard to the statement. This finding show that several times cash is not available for SMEs which could imply poor cash management practices. These findings relate with Aryeetey (2014) who cited that cash management practices are still low among SMEs.

4.2.2. Cash management is useful in planning and control of business activities

From table 4.4, findings show that majority of the respondents strongly agreed to the view that they base on cash to plan and control activities in their businesses, and this was reflected by a mean value of 4.70. A standard deviation of 0.905 was established which indicated minor variances in the responses provided. This shows cash is key in activities and planning of SMEs and hence can influence financial performance. This finding was in line with Reuer et al (2012) who reported that cash management is vital tool for management, if the firm is to a positive working capital plan.

4.2.3 Cash at hand and bank is enough for future investment

Analysis findings show that a mean value of 1.09 was obtained for the responses about the assertion statement that cash at hand and at bank for SMEs was enough to facilitate future investment. This showed a strongly disagreement to statement although there was a significant standard deviation (sd. 1.964). This shows that not all SMEs had enough cash for future investment which affected their financial performance. This finding agrees with Sowa (2010) who recounted that the firm requires having cash at hand which they seldom fail to rain in cash and with their financing agencies.

4.2.4. SMEs cash is tied in uncleared debts

The study found in Table 4.4 shows that majority of the respondents strongly agreed with the statement that SMEs had uncleared debts which affected their cash management activities. This was indicated by the mean value of 4.81. However, a standard deviation of 0.190 was established an indication that financial performance of SMEs was constrained by cash management challenges being tied in debts. These findings are in agreement with Nakawa Market. Nakawa Market Traders Association (2016) report that stated a number of SMEs have closed up business and others are still struggling to maintain their financial stability.

4.2.5 There are cash surpluses at the business

Analysis results on whether SMEs usually had cash surplus or balances after undertaking a dial or weekly activities, majority disagreed. This is shown by a mean value of 2.16. However some SMEs revealed they had surplus cash as they carried out their cash management activities indicated by a significant standard deviation (1.937). This implies that most SMEs had poor cash management resulting into minimal cash balances that further affected financial performance of the organisation. Related findings do agree with the view of Bugaari (2008) who noted that Instead of expanding to large ventures, SMEs in Uganda have kept struggling in their finances.

4.2.6 SMEs experience cash shortage

While examining cash position of SMEs, respondents were asked on whether their businesses experience cash shortages as they undertake their cash management practices. A mean value of 4.42 and a standard deviation of 0.155 were established an indication that majority strongly agreed to the statement. This finding shows that as cash management practice, most SMEs failed to handle cash flow shortages and this subsequently affected financial performance of the organisation. In addition, 4.4, majority of the respondents revealed that they do not have enough cash to pay for their stocks especially when they need large supplies. This view was reflected by a mean response of 4.69 and a standard deviation of 0.964. This implies that most often SMEs lack cash to acquire more stock and this affects their sales volume and financial performance.

4.3 Receivables management and financial performance of SMEs

The study also sought to evaluate effect of receivables management on financial performance of SMEs in Uganda and in response the following descriptive statistics were established.

Table 4.5: Descriptive statistics about receivables management of SMEs in Uganda

Statements	***N***	***Min***	***Max***	***Mean***	***Std. Deviation***
I give credit to my regular customers	130	1	5	3.91	0.634
Debtors increase sales of the firm	130	1	5	4.93	1.055
Our business has a limit of giving debts to its customers	130	1	5	2.05	1.006
Unpaid receivables reduces the business profits	130	1	5	4.67	0.591
Credit extension to customers reduces cash held at the business	130	1	5	4.11	0.205
Debtors reduce cash th e owner would be investing in the business	130	1	5	4.67	.809
Valid N (listwise)	130				

Source: Primary data

Results of the survey study in Table 4.5 above show responses obtained about receivables management in SMEs. The responses were analysed to generate their means and standard deviation. The results are presented and described below.

4.3.1 SMEs offer credit to regular customers

Analysis results in Table 4.5 above indicate that a mean of 3.91 close to 4 was obtained in regard to the view that they give credit to their regular customers. A minor standard deviation (0.634) was obtained showing a few variances were established in regard to this statement. This shows that most SMEs had a lot of trade receivables which affected their working capital and financial performance. This finding reflects closely on the view held by Atrill (2006) that there is evidence that many small scale enterprises are not very good at managing their working capital, because they trade a lot on non-cash terms which sometimes are defaulted.

4.3.2. Trade receivables increase sales of the firm

Results in Table 4.5 show that respondents agreed to the fact that trade receivables when properly done increase the sales of the firm, and subsequently enhance financial performance of the business as reflected by a mean of 4.93 and a standard deviation of 1.005. This implies that trade receivables are important for increasing sales and overall financial performance. When asked as part of receivables management practice whether the business has a limit in its practice of giving receivables (debts), the findings showed a mean value of 2.05, and a standard deviation of 1.006. This implies that the level of extending trade receivables to customers was done without any limit and this influence the volumes of money tied in receivables which affected financial performance. These findings relate with Ross et al. (2008)'s view that efficient receivables management augmented by a shortened creditor's collection period, low levels of bad debts and a sound credit policy often improves the businesses' ability to attract new customers and increase financial performance.

4.3.3 Unpaid receivables reduces profits and cash in the Business

From the table above, a mean of 4.67 and a standard deviation of 0.591 were established regarding the view that in SMEs, unpaid receivables reduce business profits and hence affect business performance. The study results in Table 4.5 show that regarding the assertion statement that credit extension to customers reduces the cash held in the business at that time, a mean of 4.11 and standard deviation of 0.205 were established. This shows that proper receivables management was vital so as to ensure a good cash position necessary for high level of financial performance. Firms with more receivables did not have cash for immediate needs, and this finding agrees with Thomas & Evanson (2014) who found out that SMEs keep increasing sale by credit, elevating the level of receivables, in the end this reduces on their profits and cash held in till which can cause the firm to stagnant and at times yields to failure.

4.3.4 Debtors reduce cash for investment

As shown in Table 4.5, a mean value of 4.67 was established regarding the view that debtors (Trade receivables) reduced the cash the owner would be investing in the business. This shows that majority strongly agreed to the statement. There were minimal variances in opinions in regard to this statement as indicated by a standard deviation of .809. This contradicts with the view held by Kwame (2007) that receivables are large investments in firm assets which are like capital budgeting projects measured in terms of their net present value.

4.4. Inventory management and financial performance of SMEs in Uganda.

The other objective of the study was to assess the effect of inventory management on financial performance of SMEs in Uganda. The detail of the descriptive analysis of the responses in regard to this study was as presented in in Table 4.6 below.

Table 4.6: Inventory Management in SMEs in Uganda.

Statements	***N***	***Min***	***Max***	***Mean***	***Std. Deviation***
This business deals in different inventory items	130	1	5	4.57	.420
This business have clear policy for inventory purchases and handling	130	1	5	1.08	.991
business has regular records of what inventory it buys and sells	130	1	5	2.09	.230
Amount of inventory held ensures regular sales at the business	130	1	5	4.13	1.404
Proper inventory levels promotes profitability of the business	130	1	5	4.32	.718
items the business has in stock encourages further investment in the business	130	1	5	4.59	.146
One has to make decisions of what to sell basing on the stock of items held in the business	130	1	5	4.17	.949
Valid N (listwise)					

Source: Primary data

Results in Table 4.6 indicate the mean responses standard deviation obtained about various statements relate with the function of inventory management as part of the working capital management aspects in SMEs. The results are discussed below.

4.4.1 SMEs hold a lot of inventories

Regarding the view that SMEs deals in different inventory items, the study findings depicted that majority strongly agreed (mean, 4.57 and std. deviation 0.420) to the statement. This implies that as part of the working capital components in the business inventory was highly used for retail businesses and its management was thus very important. This finding agree with the earlier view of Atrill (2006) who affirmed to fact that inventory provides a stronghold upon which the firm is able to re-engineer its production activities, ensure accountability, and transparency level regarding use of financial resources and as such many firms prefer having a sizeable quantity of inventory for stable working capital structure.

4.4.2 Inventory handling and Purchasing Policy in SMEs

Analysis results in Table 4.6 show that majority of the respondents strongly disagreed to the view that their businesses had a clear policy for inventory purchasing and handling as reflected by a mean response value of 1.08. A standard deviation of 0.991 was further established, an indication that inventory management policy did not exist among many SMEs in Nakawa market, and this affected the ways in which they (SMEs), acquired, allocated and handled inventory which was fundamental in financial performance of the business as well.

4.4.3 Inventory management records of transactions at SMEs

From Table 4.6, a mean value of 2.09 was obtained from the responses about the view that SMEs have and keep regular inventory management records. This strongly implies that majority of the respondents did not have; and there were minor variances in their opinions as revealed by standard deviation of 0.230. This shows that keeping of records as an activity in inventory management and useful for better financial performance was not commonly done. In addition, results shows that majority of the respondents agreed to the view that the amount of inventory held and how it is managed ensures regular sales at the business, as revealed by mean of 4.13 , although a standard deviation of 1.404 wa noted. This shows that despite variations in different SMEs, well managed inventory was key in ensuring regular sales in SMEs.

4.4.4. Inventory management promotes profitability of businesses

The study findings show that a mean value of responses (4.32) was established regarding the view that proper inventory management promotes profitability. There was a significant standard deviation of 0.718, and these findings showed that majority agreed that proper inventory management promote profitability of the organization. These findings are also in agreement with Shahwan & Al-Ain (2008) who stated that proper inventory management keeps the business working and generating profits, and subsequently ensuring that the firm attains a high level of financial return from every financial resource allocated to departments.

4.4.5. Inventory management encourages further investment

Results of the study in Table 4.6 show that majority of the respondents agreed with the view that inventory management encourages further investment and this was revealed by a mean of 4.59. This shows that a better inventory management if well done by SMEs encourages further investment. These findings agree with the view of Sushma & Bhupesh (2007) who noted that inventory management practice give room for checking the professionalism of people involved in different sections and ensuring that resources are invested and allocate to the right places for the right purpose.

4.4.6 Inventory management ensures decision making

In table 4.6 are the findings which shows that a mean value of 4.17 and a standard deviation of 0.949 were established regarding the view that SMEs can make decisions of what to sell basing on the stock of items held in the business, and a standard deviation of 4.17 was established.

This finding shows that inventory management influenced decisions the firm makes in store acquisition which influences the working capital levels of the organisation and its sales levels. This finding confers with Ross et al. (2008) who stated that inventory management is critical in decision making and basing on its state, the firm can evaluate it financial performances and make relevant decision.

4.5 Financial Performance in SMEs in Uganda

The study also aimed at examining the function of financial performance as exhibited by SMEs. Responses were established basing on the level of their agreement to the statements asked. Details of the analysis shown by the mean values and standard deviations scores of the key statements are shown in table 4.7 below.

Table 4.7: Descriptive statistics on financial performance of SMEs

Statements	*N*	*Min*	*Max*	*Mean*	*Std. Deviation*
My business has increasing profits	130	1	5	2.08	.180
This business has a lot of costs and expenditure	130	1	5	4.01	0.461
The sales of this business have increased	130	1	5	4.23	0.110
This business always have cash balance to buy more goods per week	130	1	5	2.98	1.490
Business has expanded to have new branch/ shop	130	1	5	2.01	0.161
Selling on Credit have widened our customer flow	130	1	5	4.17	1.004
Unpaid customers' debts reduce capital of this business	130	1	5	4.40	0.215

Source: Primary data

Results in Table 4.7 show mean, and standard deviation regarding the financial performance of SMEs in Nakawa market. Views established are further discussed below.

4.5.1 SMEs make profits although they incur lot of costs and expenditure

The aspect of financial performance was viewed in regard to the profitability. When asked on whether SMEs had made increasing profits over the last few years, a mean of 2.08, and standard deviation of 0.180 were established. On the other hand, results show that majority respondents agreed to the view that their retail businesses were incurring financial costs and expenditure which reduced the effectiveness of financial performance. This was revealed by a mean value of 4.01 and a standard deviation of 0.461. This shows that to a great extent financial performance of SMEs was characterized by high costs and expenditure.

4.7.2 SMEs enjoy good sales volume and cash liquidity

Responses on the view that sales of the business have increased and this was noted by a mean value of 4.23 an indication that majority of the respondents agreed with the statement, although there was a standard deviation of 0.110. The findings shows that SMEs are common and wide spread and their financial performance can be based on the sales volume they make. When asked about the view that SMEs always have a cash balance to buy more goods as an indication of financial performance, a mean value of 2.98, and standard deviation of 1.49 were established. This shows that majority of the respondents did not agree that SMEs do not have cash balance, and this affected financial performance of SMEs. This finding contradicts with the view of Dodds (2015) who revealed that to understand the performance of SMEs on need to look at their sales versus liquidity. A number of cash management techniques are adopted by organizations to ensure effective investment of cash, achieve profitability and above all attain successful in financial performance.

4.5.3. Financial expansion and Investment

Table 4.7 show the results regarding the responses on whether there has been financial growth and business expansion regarding the business through establishing new shops, and majority of the respondents disagreed with this statement as shown by a mean value of 2.01. More so, a standard deviation of 0.161 was established. This implies that financial performance of SMEs was not good to allow expansion of these businesses to open up other branches. Results further showed that majority of the respondents agreed that selling on credit which was a common practice for SMEs widened customer flow (mean, 4.17; standard deviation, 1.004) but there was need to ensure that granted credits are paid. This was so because further findings showed that unpaid customers' debts reduced the capital the firm could invest. This was revealed by a mean value of 4.40 and a standard deviation of 0.215.

4.6 Inferential statistics

To establish the effect of working capital management on financial performance inferential statistics were undertaken for cash, receivables and inventory aspects as noted below.

4.6.1 Effect of cash management on financial performance of SMEs in Uganda.

To ascertain effect of cash management on financial performance, a Pearson rank correlation was computed and results are presented in Table 4.8 below.

Table 4.8: Correlation between cash management on financial performance

		Cash management	Financial Performance
Financial Performance	Pearson Correlation	1	.712**
	Sig. (2-tailed)		.008
	N	130	130
Cash management	Pearson Correlation	.712**	1
	Sig. (2-tailed)	.008	
	N	130	130

**. Correlation is significant at the 0.01 level (2-tailed).

Findings in Table 4.8 show significant positive relationship exist between cash management and financial performance (r=.712). This implies a better cash management was one of the key aspects SMEs could improve their financial performance and vice versa. This answers the first research question: What is the effect of cash management on financial performance of SMEs in Uganda? as set by this study.

4.6.2 Effect of receivables on financial performance of SMEs in Uganda.

The extent to which receivables as a key aspect of working capital management affected financial performance of SMEs was established by Pearson rank correlation. Results are presented in Table 4.9 below.

Table 4.9: Correlation between receivables and financial performance of SMEs

		Trade Receivables	Business Performance
Financial Performance	Pearson Correlation	1	.419**
	Sig. (2-tailed)		.008
	N	130	130
Trade Receivables	Pearson Correlation	.419**	1
	Sig. (2-tailed)	.008	
	N	130	130

**. Correlation is significant at the 0.01 level (2-tailed).

Findings in Table 4.9 shows there was a positive relationship between trade receivables and financial performance of (r=.419). This implies that through trade receivables reduced the cash available for use, but proper receivables management was found to improve the financial performance of the company through increasing customer flow, sales volume and added onto working capital when recovered from debtors. These findings answer the study’s second research question: What is the effect of receivables management on financial performance of SMEs in Uganda?

4.6.3 Effect of inventory management on financial performance of SMEs.

To assess the effect of inventory management on financial performance of SMEs in Uganda, a Pearson rank correlation was established as presented in Table 4.10 below.

Table 4.10: Correlation between inventory management and financial performance

		Inventory management	Financial Performance
Financial Performance	Pearson Correlation	1	.565**
	Sig. (2-tailed)		.008
	N	130	130
Inventory Management	Pearson Correlation	.565**	1
	Sig. (2-tailed)	.008	
	N	130	130

**. Correlation is significant at the 0.01 level (2-tailed).

Findings in Table 4.10 shows significant positive relationship between inventory management and financial performance (r=.565). This implies that SMEs that properly undertake inventory management have a lot of opportunities to attain better financial performance. Thus it was found that Inventory management positively affects financial performance and hence answers the third research question, "What is the effect of inventory management on financial performance of SMEs in Uganda?

The study found out that cash management, trade receivables management and inventory management positively affect the financial performance of SMEs, yet these are core aspects of working capital management in the organisation. The study established from this perspective that working capital management positively affects financial performance of SMEs, depending on the aspects management pays attention either from cash, receivables and/or inventory.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents summary of the findings, conclusions and recommendations regarding the study. The presentation is based on the study objectives and the purpose for which the study was undertaken.

5.1. Summary of the findings

This study was conducted among retail SMEs operating their activities in Nakawa Market, Nakawa Division. The study involved business owners and employees working in various retail SMEs. Most SMEs were owned by males and had few employees. The information obtained was summarized according to objectives as noted below.

5.1.2. The effect of Cash management on financial performance

The study found out that a number of SMEs had cash related problems and as such the practice of paying attention to proper cash management practices was rarely used. Nevertheless, a number of SMEs had much of their cash tied in debts, did little or no savings both in the cash till at the business and the bank, and majority operated on cash deficits and loans, with little left as surplus to do shopping after end of week. This affects their financial performance subsequently.

Results also revealed that where cash management was being done it was found useful in planning and control of business activities especially in purchasing of more stock. The study also established a positive relationship (r=.712) between cash management and financial performance of SMEs in Nakawa Market.

5.1.3 The effect of receivables management and financial performance of SMEs

Trade receivables are claims the business has on is potential customers after selling to them on non-cash terms. Findings revealed that all SMEs provide debts/give credit to their customers. The study established that most SMEs gave out debts to their customer as a way of improving their interest in the business, increasing dales and ensuring they improve on their customer profiles and numbers.

The study further established that trade receivables contribute a lot to the business but because they do not have a clear receivables limit, and as such some debtors do not pay back their obligation and this can reduce the cash the owner would be investing on the business, hence reducing the profits of the business and significantly affecting financial performance. The study found out that there was a positive relationship between trade receivables and financial performance of (r=.419) evident in the ways trade receivables increased customer flow, sales volume and added onto the working capital when recovered from debtors.

5.1.4. Inventory management and financial performance of SMEs in Uganda.

Working capital management in SMEs among others focuses on the inventory and inventory management. Results of the study showed that different SMEs dealt in and handled different categories, and types of inventory. Unfortunately there was clearly policy followed by SMEs in purchasing and handling inventory in their trading activities.

Results of the study also established that most SMEs hold small inventories, and other than records of purchases and sales books, other inventory related records were not kept yet important for valuation of stock, associated costs. Thus a number of SMEs missed out on the benefits of having a credible inventory management practice on financial performance such as increased sales, enhancement of profitability, investment, planning, cost reduction and decision making especially regarding where and when to buy and at what cost. A positive relationship (r=.565) existed between inventory management and financial performance. Generally working capital management examined basing on cash management, trade receivables management and inventory management positively affected the financial performance of retail SMEs in Nakawa Market, Nakawa, Kampala city.

5.2. Conclusions

The study concluded that:

1. Most SMEs have cash related challenges and a few have formal cash management practices. It was established and later concluded that proper implementation of cash management as a function of working capital management positively affects financial performance of SMEs operating in Nakawa Market, Uganda.

2. The study found out that SMEs traded both for cash and credit with their clients, although there was no clear guideline on credit limit for their customers. This exposed them to bad debts, which affected their working capital. The study established and concluded that trade receivables management positively affected financial performance of SMEs.

3. It was established that inventory was important for success of any business SMEs inclusive because it was sold to generate profit. Different SMEs held different inventories in line of their business, and the study concluded that there was a positive effect of inventory management on the financial performance of SMEs in Uganda.

4. The study finally concluded that working capital examined through (cash, receivables and inventory aspects) positive affected the level of financial performance of SMEs in terms of improving their profitability, investment and liquidity levels.

5.3. Recommendations

The study makes the following recommendations

- SMEs proprietors and Owners need to employ skilled and well trained staff, other than working for themselves, as the study found out that most SMEs were being operated by family member or themselves.

- The study recommend that SMEs should properly regulate their cash needs and put into effect a function of better cash management. Thi requires having relevant books of accounts, keeping money in investments, and other non-cash equivalents.

- The study further recommends that SMEs should also have a policy in writing that guides them in granting of debts to customers, so that they can be able to reduce the possibility of getting bas debts, which reduce profits, cash for investment and affects general financial performance of their businesses.

- The study further recommends that SMEs need to adopt and where possible have in place an inventory record system, which can help them improve their working capital by having fast moving inventory. There is need to improve on the quality of inventory held, the flow and costs so as to improve the returns from the inventory held.

- SMEs should ensure they have good cash management practices, reduce on the number of trade receivable and properly manage receivables, ensure that inventory management is upheld since these positively affects the level of financial performance. In addition, the study recommends that for better financial performance achievement, firms should examine and improve their working capital management functions in general.

5.4 Areas for further research

- The effect of saving and investment culture on the financial performance of SMEs in Uganda

- The effect of inventory flow record keeping on the financial performance of SMEs in Uganda

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APPENDICIES

Appendix I: Study schedule

DURATION	ACTIVITY
February, 2017	Idea about the study
March , 2017	Identification of the study
April, 2017	Writing the proposal
May, 2017	Writing the proposal
May, 2017	Request for an introductory letter from Uganda Martyrs University
June, 2017	Make necessary preparations
June, 2017	Collecting data (both Primary and Secondary data) on the study.
July, 2017	Processing and Analysis of the data
July, 2017	Writing the draft report
July, 2017	Typing, editing, and printing the final report
August, 2017	Submission of the report

Appendix II: Budget for the Study

NO.	Descriptions	Amount UG.Shs
1	Data search	60,000
2.	Typing and printing of the proposal	50,000
3.	Data collection	130,000
4.	Data assembly, analysis and typing	50,000
5.	Writing and printing the dissertation	80,000
6.	Binding the final report copies	60,000
7.	Miscellaneous	30,000
8.	**TOTAL**	460,000

Appendix III: Questionnaire for the Study

UGANDA MARTYRS UNIVERSITY

QUESTIONNAIRE FOR THE STUDY

Dear Respondent,

I am Natuhwera Generous, a student of Uganda Martyrs University pursuing a Bachelor of Science in Accounting and Finance degree. I am undertaking a research on the effect of working capital management practices on the financial performance of Small and Medium Enterprises in Uganda" A case study of Nakawa Market in Nakawa Division in Kampala District. You have been selected to participate in this activity by answering the questions in the questionnaire appropriately; your answers will be kept confidential.

I will be grateful for your co-operation and participation in the study.

Instructions

Please fill in the spaces provided using a pen

Put a tick mark (√) on ONE answer for your choice in the questions below.

<u>Section A: Background Data of Respondents</u>

1. Type of SME...

2. Category

A. Business Owner ☐ B. Employee in the Business ☐

3. Gender of respondent

A. Male ☐ B. Female. ☐

4. How long have you been working in this business?

A. Below 1-year ☐ B Between 1-4 years ☐

C. Between 5- 9 years ☐ D. Above 10 years ☐

Section B: Working Capital Practices and Financial Performance

In sections, B, the following scale will be used to answer the questions.

Tick in the appropriate box basing on your level of area of use.

Scale	1	2	3	4	5
particulars	Strongly disagree	Disagree	Not sure	Agree	Strongly agree

For questions in B-1, B-2, B-3, and B-4, please respond to the statements given by way of ranking your responses as shown below.

Ranking: 1- Strongly disagree, 2-Disagree,

3- Not sure, 4- Agree

5- Strongly Agree.

Part B-1: Cash management practices of SMEs in Nakawa Market

5. The following statements relate to the aspects of Cash management practices among SMEs in Nakawa Market?

S/N	*Statements*	*Ranking of Responses*				
		1	2	3	4	5
A	Your business has enough cash to meet its daily activities					
B	Your SME base on its cash position to plan and control its activities					
C	Cash at hand and bank is enough for future investment					
D	The business still have uncleared debts for their businesses					
E	There are cash surpluses at the business					
F	The business experiences cash shortages					
G	The business does not have enough cash to pay for its stock					

Part B-2 Receivables Management of SMEs in Uganda

6. State your level of agreement to the following statements regarding receivables management of SMEs in Nakawa Market?

S/N	***Statements***	***Ranking of Responses***				
		1	2	3	4	5
A	I give credit to my regular customers					
B	Debtors increase sales of the firm					
C	Our business has a limit of giving debts to its customers					
D	Unpaid receivables reduces the business profits					
E	Credit extension to customers reduces cash held at the business					
F	Debtors reduce cash th e owner would be investing in the business					
G	I give credit to my regular customers					

B-3: Inventory Management in SMEs in Uganda.

7. State your level of agreement to the following statements regarding Inventory Management of SMEs in Nakawa Market?

S/N	***Statements***	***Ranking of Responses***				
		1	2	3	4	5
A	This business deals in different inventory items					
B	This business have clear policy for inventory purchases and handling					
C	business has regular records of what inventory it buys and sells					
D	Amount of inventory held ensures regular sales at the business					
E	Proper inventory levels promotes profitability of the business					
F	items the business has in stock encourages further investment in the business					
G	One has to make decisions of what to sell basing on the stock of items held in the business					

Part B-4: Financial Performance in SMEs in Uganda

7. Which of the following is/are the true assertion(s) statement (s) regarding financial performance in SMEs in Nakawa Market?

S/N	***Statements***	***Ranking of Responses***				
		1	2	3	4	5
A	My business has increasing profits					
B	This business has a lot of costs and expenditure					
C	The sales of this business have increased					
D	This business always have cash balance to buy more goods per week					
E	Business has expanded to have new branch/ shop					
F	Selling on Credit have widened our customer flow					
G	Unpaid customers' debts reduce capital of this business					

"Thank You Very Much

Appendix IV: Documentary Checklist

In the course of conducting this study, the researcher will ask for and review the following documents.

I. Records for Receivables

II. Records for different inventories used by the business and how regular are they purchased

III. Financial reports of the business

IV. Any other documents about financial recording in SMEs